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Honduras

Coffee Annual

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Report Highlights:

Honduras ranks first in Central America, third in Latin America, and sixth globally in coffee exports by volume. Honduran coffee production in marketing year (MY) 2016/17 (Oct –Sept) is forecast at 6.1 million 60-kilogram bags, a four percent increase over MY 2015/2016. The increase is marginal compared to historical growth rates. Low prices continued to plague producers throughout the season resulting in lower production.

Executive Summary:

Sixty-one percent of Honduran coffee production is located in the mountains between 3,900 and 5,200 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments. The Honduran Coffee Institute (IHCAFE) records show that in marketing year (MY) 2014/2015 (Oct-Sept), 94 percent of all coffee's production in Honduras was registered by 95,912 small producers.

The coffee sector provided employment to more than one million people who directly participated in the previous coffee harvest. Roughly \$310 million were distributed over a four month period to workers involved in coffee production activities. According to the Central Bank of Honduras, coffee is the number one agricultural product exported from Honduras, which provides a large contribution to the foreign exchange reserves.

Coffee harvest for MY 2016/2017 is forecast at 6.1 million 60-kilogram (kg) bags. The estimate is a four percent increase over the MY 2015/2016 harvest; which is below average. The increase is marginal compared to its historical growth rates. The forecast amount is based on the effect that low coffee prices in MY 2015/2016 has had on producers. Low coffee prices resulted in lack of profits needed to meet loan payments. The current economic situation has limited them to access new credits and cover basic operating costs to increase production.

The surveillance of any incidence of coffee leaf rust continues through a Specialized Technical Committee of Coffee Leaf Rust Early Warning System established in 2014. IHCAFE has been evaluating the resistance level of leaf rust resistant coffee varieties; and is conducting research for new ones.

The export forecast for MY 2016/2017 is 5.7 million 60-kg bags. The estimated amount is based on the level of production and the already established market. Exports of specialty coffee have been growing as a result of increased demand for specific flavor profiles. More producers are receiving technical assistance to improve the quality of their coffee. Honduras held its "XIII Cup of Excellence" in 2016. This program encourages and maintains consistent quality coffee. Through this competition, Honduras finds niche markets for its coffee.

Commodities:

Select

Production:

Sixty-one percent of Honduran coffee production is located in the mountains between 3,900 and 5,200 feet above sea level, with 23 percent in areas from 2,900 to 3,900 feet above sea level, and 16 percent in areas 1,600 to 2,900 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments, and in

210 of the 298 municipalities. In MY 2014/2015 (Oct-Sept), more than 102,000 producers registered their production with IHCAFE. Out of those producers, 95,912 are small producers, which collectively grow 94 percent of all coffee produced in Honduras.

The beginning of the marketing year for coffee production in Honduras is the month of October. Coffee harvest for MY 2016/2017 is estimated at 6.1 million 60-kg bags. The forecast increases slightly by four percent from the MY 2015/2016 harvest; which is below average. Growth rates in previous years have averaged 20 percent, with a record harvest growth of 42 percent in MY 2011/2012. The projected amount for the forecast year is based on the effect that low coffee prices in MY 2015/2016 has had on producers. Low coffee prices resulted in lack of profits needed to pay their loans. The current economic situation has limited producers to access new credits to invest in inputs and be able to fully apply good management practices to trees, which reduces coffee production and quality. Weather conditions associated with El Niño have affected coffee production as well. Producers did not apply fertilizer due to the drought. This estimate also takes into account the production of new planted area with bean-bearing trees that will be harvested for the first time since the 2014 coffee leaf rust outbreak.

Areas of coffee planted and harvested in MY 2016/2017 are forecast to increase slightly due to the decrease of grower returns. The re-planting of trees to replace the old ones; and new areas planted began three years ago. Those trees are starting to produce; and are part of the coffee harvest in the forecast year. The numbers of bearing trees will grow due to the process of renovation of plantations and new coffee areas. The non-bearing trees will have the opportunity to grow if good agricultural practices are implemented; and weather conditions are favorable.

Coffee leaf rust spread over about 80,000 hectares (ha) in MY 2013/2014. The reduction of further harmful effects was contributed to Honduras's development of coffee varieties resistant to coffee leaf rust. The varieties developed were the IHCAFE 90, Lempira, and Parainema. Honduran coffee farmers have been using those rust resistant varieties for more than two decades. The producers that did not have coffee leaf rust resistant varieties and lack of credit did not recover. The restoration of areas affected by leaf rust depended upon the availability of credit of the producer to start the process to renovate or establish a new plantation. Other producers which were able to implement good agricultural practices are having their first harvest after the outbreak.

Coffee producer associations and international organizations have implemented short, medium, and long-term strategies to fight coffee leaf rust. These strategies have been focused on producer training, educational campaigns to control coffee leaf rust, technical assistance to increase coffee quality and farm productivity in areas not affected by rust. The approach has also been to strengthen the producers affected by coffee rust with capacities for the renovation and rehabilitation of plantations.

The Ministry of Agriculture and Livestock's Agricultural Information System (INFOAGRO), IHCAFE, the National Service of Meteorology, and the International Regional Organization for Plant and Animal Health (OIRSA) integrated a Specialized Technical Committee of Coffee Leaf Rust Early Warning System for Honduras. The Committee gathers information about rust, climate and phenology among other variables to communicate levels of warning, recommend preventive and control measures against a threat, or during the development of the epidemic. The objective of the system is to promptly inform the government, coffee producers and specialized institutions about the potential phytosanitary threat and their respective actions of intervention. The Committee issues bulletins for IHCAFE and coffee

producers to continue improving control measures and to implement good agricultural practices in coffee production. IHCAFE's Research and Development Center is evaluating the resistance level of leaf rust resistant coffee varieties; and undertaking research of other varieties.

Production of "value-added" coffee is also increasing. Large areas of coffee plantations are grown about 1,000 meters above sea level. These plantations have the minimum altitude required to be Specialty Coffee. Majority production was under programs such as: Fairtrade/Organic (FLO/ORG), Association 4C, Organic (ORG), UTZ Certified, Rain Forest Alliance (RFA), Fairtrade (FLO), Café Practices, Cup of Excellence and others. Exports of Strictly High Grown and High Grown coffee were 4.6 million bags in MY 2014/2015, which was equivalent to 92 percent of total exports of Specialty Coffee.

As part of IHCAFE's efforts to market Honduran specialty coffees, six distinct coffee regions defined by unique flavors have been established. The types of specialty coffee varieties used are not resistant to coffee rust. Producers continue to plant them because of demand for high quality coffee expected by customers. Producers growing specialty coffees are relying on good agricultural practices to control coffee rust.

The United States Department of Agriculture (USDA) has the largest coffee project in Honduras, which is implemented by TechnoServe (2012-2017). The project focuses on all aspects of the coffee value chain: production, processing, post-harvest and marketing of coffee in five departments which represent about 60 percent of total coffee production in the country. The project's activities aim to enhance agricultural productivity of high-quality coffee through improvements in cultivation, post-harvest processing, increasing market linkages and exports, strengthening coffee producer's organizations, and providing access to adequate financing for producers. The goal is to increase incomes for small and medium scale coffee producers by providing better opportunities to sell their product.

Consumption:

The increase in domestic consumption from previous forecasts is due to an update of data by IHCAFE and private sector sources. The consumption trends can be tied to the growing presence of coffee bars located in shopping malls, gas stations, main business streets, supermarkets, office buildings and hospitals. A large percentage of the Honduran population is young and is consuming more and different types of coffee drinks, e.g., "frozen" coffee. Coffee bars that provide customers with free wireless internet are attracting high school and University students as customers.

Trade:

Exports

Honduras ranks first in Central America, third in Latin America, and seventh globally in coffee exports by volume. Post estimates the MY 2016/2017 harvest will reach 6.1 million 60-kg bags, with 5.7 million bags exported. Coffee trade is all year round with the heaviest volume during the period March-June. Export value in MY 2014/2015 was \$1.0 billion. The average price was \$202.00 per 60-kg bag.

As of May 2016, the average price of coffee is \$162.00 per 60-kg bag. The current low price of coffee is a primary factor for why foreign exchange estimates are expected to drop in MY 2015/2016 to \$893 million.

Trade matrix with the main exports by destination:

Export Trade Matrix			
Country	Honduras		
Commodity	Coffee, Green		
Time Period	MY	Units:	60 Kg Bags
Exports for:	2015		2016
U.S.	879	U.S.	925
Others		Others	
Germany	1,450	Germany	1,578
Belgium	495	Belgium	544
Italy	343	Italy	381
France	289	France	326
Venezuela	204	Venezuela	218
Dominican Republic	172	Dominican Republic	163
Sweden	139	Sweden	109
United Kingdom	112	United Kingdom	108
Japan	102	Japan	108
Total for Others	3,306		3,535
Others not Listed	835		983
Grand Total	5,020		5,443

Source: MY 2015: IHCAFE's Preliminary Annual Report 2014/2015
MY 2016: Post estimates

Informal Exports

The flow of contraband of high quality coffee has increased to Guatemala and Nicaragua. The buyers from those countries provide a higher price than local buyers and exporters. The amount is estimated at 700,000 60-kg bags. Another reason for this unregistered trade is that coffee buyers do not provide sales documents to IHCAFE.

Imports

According to data from the Honduran Central Bank, during calendar year 2015 imports of roasted coffee for domestic consumption originate mainly from the United States, Costa Rica and Nicaragua. Imports of soluble coffee come mostly from Mexico, the United States, Chile, El Salvador, and Costa Rica. Post expects that competition to U.S.-supplied roasted and soluble coffee will grow. The Colombian "Juan Valdez" coffee has started to be sold in supermarkets. Coffee shops at malls with local and regional chains are highly visited. International coffee companies sell their soluble coffee in machines located at commercial centers and office buildings. In addition, they are selling soluble coffee to costumers in

supermarkets in smaller containers for easier sale, since the price of soluble imported coffee is higher than local coffee.

Stocks:

Stocks are held by exporters and roasters from the private sector. Coffee beans are stored by exporters as inventory needed to meet future contracts and are not holding stocks to try and influence price. Honduran roasters keep beans for domestic consumption throughout the year. Some stocks may be released to other Central American countries in the course of the year; depending on price.

Policy:

IHCAFE was created as a semi-autonomous institution in 1970. In 2000, the Government of Honduras (GOH) privatized IHCAFE, as a non-profit institution. The privatization was done in order to have an organization that responded quickly and efficiently to the needs of the coffee sector. At the same time, the National Council of Coffee (NCC) was created, which is the highest regulatory authority in the Honduran coffee sector. NCC is the specialized institution that works in all aspects of coffee production, harvesting, and exporting. IHCAFE has the following strategic axis: a.) production and productivity, b.) quality of Honduran coffee, c.) promotion, d.) diversification and e.) financing of the coffee sector. It provides guidelines, regulations the entire coffee value chain in order to improve the integral development of coffee producing families. It establishes commercialization procedures and controls coffee production and exports. IHCAFE issues export permits to exporters, whom must register both coffee bought from producers, and coffee exported.

IHCAFE is an institution of gremial character, subsequently; its Board of Directors includes the four largest coffee producer's federations and associations such as: Honduran Coffee Producers Association (AHPROCAFE), National Association of Coffee Producers of Honduras (ANACAFEH), Federation of Honduran Coffee Cooperatives (CCCH – La Central) and the Federation of Honduran Coffee Cooperatives (UNIOCOOP). The Board also has coffee roasters, exporter associations, and representatives from the Secretariat of Agriculture and Secretariat of Economic Development as members.

Honduran coffee production and exports started to slow with lower coffee prices in 1999. During the four year period of MY 2000/2001 to MY 2003/2004, prices continued to drop to a low of \$51.00 per quintal (100 pounds). Due to this crisis, the GOH issued various Decrees to provide economic support to coffee producers. Most of the loans had a payment period of twenty years, and many Honduran coffee producers are still paying them off.

The GOH created the Law of Financial Reactivation of the Coffee Production Sector in 2003 in response to low coffee prices in order to prevent coffee producers from abandoning coffee production, avoid foreclosure on properties with high arrears, and assist producers with high level of indebtedness. The Law and the previous GOH's Decrees issued an established coffee producer savings fund to sustain their production. The collection mechanism is through a deduction of \$13.25 per quintal that the exporter makes when they purchase coffee from producers. The \$13.25 is comprised of three deductions as follows:

The first \$9.00/100 wt. is used to capitalize the coffee trust fund. This amount is used for: a) repayment of loans held by banks and financial institutions used by producers and, b) paying IHCAFE loans for fertilizers, inputs, financing and seeds sold to coffee producers. IHCAFE returns either the full saved \$9.00 to producers that do not have outstanding loans, or a lesser amount depending on the loan repayment schedule.

The next \$1.00/100 wt. is for payment of outstanding loans received by coffee producers in 1999, 2000 and 2001. IHCAFE returns this \$1.00 annually to producers that did not receive loans in those years.

The final \$3.25 is divided as follows: \$0.50 is applied to the repayment of the \$20 million loan made in 2002, which also remains outstanding. The balance is distributed 36 percent going to the operation of IHCAFE and 64 percent to the National Coffee Fund. The National Coffee Fund uses these resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

The National Coffee Fund (NCF) was also created to provide support to the coffee sector. NCF is an organization that receives funding from coffee producers. The NCF is responsible for the maintenance and construction of roads in coffee producing areas which helps producers transport coffee from the mountains to markets. Each municipality receives an allocation of funds for road construction in proportion to the production of coffee coming out of their municipality.

IHCAFE has the following specific programs that reach smaller coffee producers:

The Program to Support Small Producers (PAPP) offers funding to small producers for replanting a manzana of land, or 0.71 percent of a hectare. This Program supports about 23,000 small producers, to whom is provided technology, seed varieties and technical assistance. The Program aims to increase production from 5 to 45 quintals per “manzana”. The funds are provided by IHCAFE and the National Coffee Fund. No interests are charged.

The Emergency Program to Small Producer (PEPP) is implemented through the National Bank for Agricultural Development (BANADESA). This program has the same objectives of the PAPP Program and no interest is charged to the producer. Interest charges are absorbed by IHCAFE and the National Coffee Fund.

The following projects are also implemented: Innovative Coffee Producer, Coffee Regionalization, Coffee Rehabilitation and Productive Diversification. In addition, other programs to assist small coffee producers are: Land Title, Solar Dryers, Agroforestry and Community Forestry.

IHCAFE has also created the Superior School of Coffee, Centers of Research and Training, the National Center of Quality, the Coffee Quality Control Laboratory and the School of Coffee Tasters. They have six research and training centers nationwide. It created in 2008 the National Quality Center to identify coffee from Honduras and to open international markets. In 2010, the center received ISO 17025-2005 accreditation. IHCAFE also has regional laboratories for coffee cupping to support coffee producers in their product knowledge and technology, as well as for the identification of quality specialty niches.

In addition, there is the Cupping School focused on educating young Hondurans to improve long-term knowledge of coffee quality. IHCAFE's agreement with the National University of Honduras (UNAH) has established the University Technician on Quality Control in Coffee and the Coffee Business Administration degrees. Through the USDA/TechnoServe project, services of coffee cupping with IHCAFE are being provided free to producers so that they can identify the quality of the coffee they produce.

Marketing:

Honduras has grouped coffee production and quality specifications into six different regions according to differences in microclimates and soil composition. In 2004, Honduras began with the Cup of Excellence (COE). In 2005, Honduras obtained the first Origin Denomination of the country: DO Marcala Coffee. The Geographic Indication (GI) as Brand Collective "Honduran Western Coffees" (HWC) was born.

International Marketing -- The IHCAFE "Cup of Excellence" promotional event brings together the best Honduran coffees that are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. Honduras held its "XIII Cup of Excellence" in 2016. This program encourages and maintains consistent quality coffee, promotes good practices of production and processing, taking care of the environment and complying with the conditions required by international markets. Regional competitions for quality and coffee fairs are taking place, and buyers join those regional events.

Honduras has a growing reputation as a specialty coffee power player. There is more participation in international fairs to promote the Honduran coffee. As demand for high quality Arabic coffees continues to rise, the commitment of Honduras represents an opportunity to build the supply chain for U.S. coffee roasters.

Production, Supply and Demand Data Statistics:

Coffee, Green	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
Honduras	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	293	0	310	0	325
Area Harvested	0	227	0	268	0	290
Bearing Trees	0	966	0	1140	0	1230
Non-Bearing Trees	0	279	0	180	0	150
Total Tree Population	0	1245	0	1320	0	1380
Beginning Stocks	300	300	300	372	0	498
Arabica Production	5000	5416	5900	5903	0	6133
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	5000	5416	5900	5903	0	6133

